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**THE DRAGON AND THE GOOSE  
(WHAT BECOMES OF THE GOLDEN EGGS?)**

**BY**

**LIEUTENANT COLONEL TINA M. CHESTER  
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## Abstract

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On July 1, 1997, Hong Kong territories will transition to a Special Administrative Region under the People's Republic of China; ending over 150 years of British colonial rule. This transfer of sovereignty is speculated to have profound effects on businesses and industries, foreign and domestic. International and regional political and economic implications are also expected. What is not known is just what these implications will be, how they will effect U.S.-Hong Kong relations and more importantly, what changes could occur to the already fragile U.S.-China alliance. Indicators linked to culture, history, and geography can possibly aide in these predictions, but ultimately, economics plays the pivotal role in understanding, evaluating, and speculating on future scenarios. Economic issues such as free trade, open markets, and import/export capability are at the

forefront of what motivates Hong Kong, China, and the United States actions. The need for economic stability is the primary driver for China's development of a Special Administrative Region, meant to allow Hong Kong freedom to be economically influential in the international trade community. This very influence will enable Hong Kong to remain a Special Administrative Region, without major controversy, for the next 50 years. Economic growth and well-being will continue to be the glue that keeps the United States and China cooperating to resolve future issues.

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## Hong Kong: July 1, 1997

Fireworks light up the night sky as if it is morning. People are everywhere. A great celebration appears to be happening all over the city. Government officials are looking proud and smug. People are drinking, dancing, and singing in the streets. But as one looks closer, anxious faces with just a hint of worry are scattered amongst the crowd. Small groups huddle in deep conference in the bars, theaters, and cafes, all talking in hushed voices. Meanwhile, thousands of miles away in Washington DC, think tanks, interests groups, corporate CEOs and government officials watch the festivities with similar worry and apprehension. Why do these apparently unconnected groups from different cultures and time zones wear the same apprehensive looks? Why do the same quiet conversations occur in plush corporate suites and offices so many miles apart? The reasons are complex and intriguing.

July 1, 1997 is the long awaited and much planned C-Day, or China Day. In accordance with the 1984 Sino-British Declaration, Great Britain has officially turned sovereignty of the island of Hong Kong over to China. Years of business and government speculations are now unimportant, like the day after a presidential election. It is China's turn to write the next chapter, while many brace for the worst but hope for the better. Will China keep its promise of "One Country, two systems"? What role will Hong Kong play in China's future strategic plans? Even more importantly for the United States, what effects will these implications have on the region, on corporations, and on the United States?

This study will first examine events in Hong Kong's history that shaped its relationship with China. The review will encompass events from the birth of British rule of Hong Kong in

1840 to the Sino-British Joint Declaration of 1984. Understanding the cultural history of Hong Kong and its connection to mainland China is beneficial to fully appreciating China's nationalistic objective of anti-imperialism and its' deep rooted quest for sovereignty.

After gaining a better historical perspective, the future of Hong Kong and its importance to China's growth as an economic and political power will be examined. How China incorporates Hong Kong into its future plans holds many implications for the United States and is of extreme importance to the realization of U.S. National Security Strategy. Additionally, Hong Kong's economic influence on the international community is politically important when evaluating future implications for the United States. These political and economical consequences of Hong Kong's reunification with China, even though unclear, will influence and govern United States foreign policy decisions in the Asian theater, now and in the decades ahead.

### **A Historical Perspective**

Hong Kong consists of three parcels of land, encompassing only 403 square miles: The Island of Hong Kong, the Kowloon Peninsula, and the New Territories that encompasses surrounding Islands. Great Britain first occupied Hong Kong after the British defeated China in the First Opium War (1839-1842). According to the Treaty of Nanjing, the Island of Hong Kong was given by China to Britain "in perpetuity".

Two decades later, after defeating China in the Second Opium War, Great Britain forced the Chinese to cede Kowloon and the Stonecutters Islands, again "in perpetuity", in the Treaty of

Beijing. While the Kowloon Peninsula is only a mere 4.2 square miles, it is strategically important because it is located at the harbor entrance to Hong Kong.

By the end of the Second Opium War, China was a greatly weakened country with the majority of its coastal territory divided between Germany, Russia, France, and England. At the 1898 Convention of Beijing, Britain further obtained a 99 year lease from China for an area later called the New Territories. Comprised of over 370 square miles, including 235 islands and two bays, the New Territories is ten times larger in area than the Island of Hong Kong and Kowloon together, constituting over 90 percent of the total land mass of the colony. Moreover, the New Territories provide much of the colony's water and power supply as well as manufacturing space. Without this land, it would be impossible for Hong Kong to carry out normal economic operations and to maintain its prosperity. <sup>1</sup>

From the beginning, Great Britain regarded its treaties with China as perfectly legal documents sanctioned by international law because the territories acceded to the British crown were either from legitimate spoils of war or diplomatic negotiations. China, however, for generations viewed the Opium Wars and subsequent treaties and leases as not only the beginning but also an enduring symbol of national humiliation. Even as early as 1898, Chinese intellectuals called on Western powers to return Chinese territories.

Kang Youwei, a well-known leader of the 1898 Hundred Day Reform, criticized the imperialistic countries' treatment of China. Kang said that although China was nominally still an independent country, Chinese territory and major economic systems such as railways, shipping, trade, and banks were under the control of powers who "can grab anything they like". Kang also pointed out that unequal treaties imposed on China were "an extreme national shame".<sup>2</sup>

In 1927, under the leadership of Chiang Kai-shek, the Nationalist Party rose to power, defeated the warlords and unified China. The following year, the government of Nanjing declared intentions to recover all Chinese territories occupied by the powers, announcing:

For 80 years China has been under the shackles of unequal treaties. These restrictions are a contravention of the principle in international law, of mutual respect and sovereignty and are not allowed by any other state ... Now that the unification of China is being consummated we think the time is ripe for taking further steps and begin at once to negotiate - in accordance with diplomatic procedure - new treaties on a basis of complete equality and mutual respect for each other's sovereignty ... . The implementation of unequal treaties constitutes a complete record of China's national humiliation. <sup>3</sup>

Slowly, as a result of this stronger Chinese government, Germany, France, Russia and Great Britain began to give up some of their land holdings in China. Great Britain renounced the territories of Hankou and Jinjiang in 1928 and Weihaiwei in 1930. Yet, Hong Kong was not returned to China because of its continued vital role in Great Britain's Far Eastern trade. China, concerned more about the return of territorial rights nearer to major Chinese cities than the peripheral Hong Kong, located far from China's political and economic centers, did not push for its return.

Soon afterwards, in the 1930's, the recovery of all Chinese lands became less important than the threat of Japan and the beginning of World War II. Furthermore, in 1949, the Chiang's government was overthrown by the Chinese Communist Party (CCP), a strong anti-imperialistic and anticolonization group that followed Marxist-Leninist doctrine.

During the next 33 years under the leadership of the CCP, China continued to grow in strength and power while Great Britain's Empire, seriously weakened by W.W.II, declined

rapidly. In 1950, Great Britain established formal ties with China, the first power to do so. By 1967, the once powerful British Empire had only a few remaining Far East colonies and subsequently less commercial interest in Hong Kong. With the arrival of the 1970's, Great Britain found it harder and harder to bear the expense of maintaining and staffing the garrisons and shipyards in Hong Kong. Garrison costs had risen from 28 million pounds to 50 million pounds by 1975 and prompted the British government to completely withdraw all military forces from Hong Kong.

While Great Britain faced many internal and external changes in the 1970s, China began to emerge as a serious player in the world economy. British interest diminished in Hong Kong as a colony when internal financial and economic pressures took priority. Chinese interest in Hong Kong, however, grew in this same period. Besides the historic declaration to reassert Chinese sovereignty over lost territories, China was astutely aware of Hong Kong's economic growth and reputation in the international business world.

Recognizing the importance of Hong Kong to his country's long term objectives, China's leader Deng Xiaoping announced a policy of "One Country, Two systems"; a policy previously applicable only to Taiwan. This ingenious idea allowed the People's Republic of China (PRC) to recover sovereignty and still maintain Hong Kong's autonomy. China's real objective was to take advantage of the capitalistic inflow of much needed revenue to the PRC system. In effect, this policy recognizes the capitalistic economy of Hong Kong and Taiwan even though it directly contrasts with the socialistic economy of mainland China.

These new changes in national interests of both Great Britain and China set the stage for British Prime Minister Margaret Thatcher's 1982 visit to Beijing. This visit began what

eventually resulted in a two-year negotiation process that culminated in the 1984 Hong Kong agreement between China and Great Britain, known as the Sino-British Declaration. The basics of this agreement are as follows: the return of Hong Kong to China sovereignty in 1997 and the creation of a Special Administrative Region (SAR) that will allow Hong Kong's social and economic systems and way of life to remain unchanged until 2047. The official declaration explained further:

The joint agreement specifies that the SAR's government and legislature are to be composed locally, with its chief executive appointed by Peking in conjunction with some form of - as yet unspecified - local elections. The legislature is to be vested with legislative powers and constituted by elections. The present judicial system is to be maintained ... intended that the Hong Kong SAR will handle its own finance, budget, and revenue exclusively ... current systems of taxation, accountability, and the public expenditure will be maintained. latitude to decide its own economic and trade policies and to participate in relevant international organizations and trade agreements such as the General Agreement on Tariffs and Trade (GATT). To maintain Hong Kong's position as an international financial center, there will be no exchange controls and the Hong Kong dollar will continue to circulate and remain freely convertible.<sup>4</sup>

Though transition has not yet occurred, a Hong Kong Selection Committee, composed of over 400 members selected by Beijing, just recently selected shipping magnate Tung Chee-hwa as the first chief executive to lead the Special Administrative Region; the replacement for British Governor Christopher Patten. Tung's recent campaign platform of consensus versus confrontation with China has many pro-democracy activists worried. Will China live up to its agreement of "One Country, two systems"?

Much British and Chinese posturing is occurring in the last months of British rule. Great Britain has issued British passports to thousands of Hong Kong families. China has sent

warnings to the Hong Kong press on reporting guidelines; basically threatening to censor and even shut down those papers that insist on anti-government story lines.<sup>5</sup> Thus, although the framework for the transfer of political power from Great Britain to PRC/Hong Kong has been laid, there are many unresolved issues and many unanswered questions. Yet, no matter how many issues remain unresolved, no matter how many skeptics or optimists predict the future face of Hong Kong's corporations, people, and society, one fact remains important for Americans: United States future foreign and trade policies will be affected.

### **Hong Kong's Role In China's Strategic Vision**

In China's view, the reinstatement of Chinese sovereignty in Hong Kong will not only eliminate shame of western occupation, but will formalize an already vibrant economic relationship. This reunification will blend nicely into China's long range strategic vision focused on internal economic growth, prosperity, and regional stability. Internally, Hong Kong is valuable to the economic reforms begun by Deng Xiaoping. These reforms emphasize foreign investment and trade, development of infrastructure and defense modernization. Externally, this Special Administrative Region is important to China's requirement for regional stability and continued influence in the Asian community.

#### *Internal Economic Growth and Prosperity.*

Hong Kong's internal importance to China's vision is seen in four roles; trading partner, financier, middleman, and facilitator. Its importance as a major source of direct investment in the mainland is evident as far back as the late 1970s to early 1980s when the average trade

growth rate was a viable 42.8 percent.<sup>6</sup> Today, trade between these two countries accounts for over one-half of Hong Kong's imports and exports, and importantly, for almost 60 percent of its re-exports.<sup>7</sup> This close relationship is also evident by China import figures, showing over 33 percent of its commodities such as clothing, transport equipment, petroleum, and raw materials sourced out of Hong Kong.<sup>8</sup>

Hong Kong is a country with no tariff barriers. It is a bustling economy with a 1994 National product growth rate of 5.7 percent and a Gross Domestic Product (GDP) of \$132 billion. Foreign trade is substantial; \$151 billion in exports and over \$162 billion in imports. Compared to other Asian country 1994 export/import figures; China \$121 billion/\$ 115 billion, Taiwan \$92.8 billion/\$85.5 billion, and Japan \$397 billion/\$275 billion; Hong Kong is a major player in foreign trade in the Asian theater.<sup>9</sup> As recent as Feb. 1997, stock shares soared 3.6 percent to a record high as investors poured funds into property and banking, reaffirming Hong Kong's continued growth. Purchasing Power Parity (US=100) of 87.1 is the highest of any Asian country, Japan being 81.7 and China at a very low 9.7.

It is obviously smart business for China to use Hong Kong's economic influence and power to improve its own economic position. Hong Kong has international trade agreements already in practice and an indisputable reputation of a market economy with an open policy of international trade. For China, Hong Kong is a vital link to the international trade arena.

Also important to China is Hong Kong's status in the NIC (newly industrialized countries) along with Singapore, South Korea, and Taiwan. The NIC import and export trade with Japan is sizable. For example, China conducted no trade with South Korea and Taiwan, and only had a mere \$6 billion in trade with Japan. Hong Kong, on the other hand, had exports of

\$9.7 billion and imports of \$ 17.5 billion with its fellow NIC members. By 1993, Taiwan and South Korea had both relaxed political opposition with China and Hong Kong became a major conduit for growing trade with China. These increased investments from Taiwan and South Korea have turned the major thoroughfares in and out of Hong Kong into parking lots.

China-Hong Kong economic ties are not new. Hong Kong companies have invested heavily into China's Guandong Province, specifically the Special Economic Zones of Shenzhen and Pearl River Delta, which have received over 40 percent of the total foreign investment. This interest is linked to the number of Hong Kong immigrants from Guandong and subsequent familial ties. China encouraged these close ties, and today the economic integration of these two regions is complete. Why this encouragement? It is best said by Clyde A. Haulman:<sup>10</sup>

With the economic integration of Hong Kong and Guandong virtually complete, this greater Hong Kong can serve as the engine for growth in China and can extend China's trade, business, and financial services throughout East Asia. Hong Kong's ability to reduce the transaction costs associated with China dealings ... the experience of Hong Kong's business community, the economies of scale that exist in the territory ... combine in the optimistic scenario to keep Hong Kong at the front as the Asian miracle continues.

Hong Kong also functions as middleman and facilitator in reducing China's trade transaction costs for all businesses, particularly Chinese dealings with Taiwan. With Hong Kong as intermediary, China and Taiwan have, until recently, depended on Hong Kong trade vehicles to conduct export/import transactions with each other. Official communications between China and Taiwan have been strained since the 1996 Chinese missile-launch exercise off Taiwanese waters. However, both rely on reciprocal trade; Taiwanese textiles, iron and steel,

telecommunications and electrical machinery to China, and Chinese fish, food, and medicinal products to Taiwan. This cost through Hong Kong is high. Taiwan relations with its sister SARs have eased these communication strains with China to the extent that new direct trade agreements have recently been introduced into some of the above markets. Hong Kong's role as intermediary and possibly peace maker between Taiwan and China has alone been worth China's efforts.

China has a vested interest in Hong Kong remaining a powerful international trade and business center. A strong Hong Kong opens the door for China to benefit from more foreign investments, more trade within the international community, and procurement of dual-use technology for modernization improvements.

#### *Regional Stability.*

China has taken a remarkably stable approach to foreign policy since 1982 ... primarily due to its origins in China's domestic goals and needs rather than the international community itself ... China's priority of economic growth dictates the avoidance of external conflicts that would deflect energy and money to crisis response.<sup>11</sup> A stable East Asia allows China to concentrate solely on internal affairs and long range modernization plans. Allen S. Whiting writes in *The China Quarterly*:<sup>12</sup>

Overviews of East Asia in a major foreign policy journal emphasize the absence of any immediate security threat ... No dominant country threatens any other state and no regime seeks to upset this balance ... Tensions and crisis in some areas or some individual problems were possible, but looking at the entire entity, the Asia-Pacific region could possibly remain stable for the next decade.

Current regional peace does not reduce China's requirement for a more modernized military. China was stunned by the United States ability to deploy and sustain its forces across the world during DESERT STORM and realized just how far behind they were. Up until now, China's Peoples Liberation Army (PLA) was mainly an internal force focused on local security and control. PLA Force Structure numbers substantiate this: a 2.2 million army baseline with seven military regions and 28 districts, out of which only 230,000 are naval forces, 5,000 are marines, 25,000 are naval air forces, and 470,000 are air forces. Of the one hundred divisions, less than ten per cent are mechanized. This indicates not only a force structure built for local wars but also a militia style force that is self-contained and with little outside projection capability.

Regional peace provides fertile conditions for PLA weapons development. Being roughly "15-20 years behind those of advanced nations",<sup>13</sup> no quick fix is possible. Even though the United States weapons technology embargo against China is still in place, U.S. technology transfers through Hong Kong for commercial interests are ongoing. Many of these new technologies can and are 'dual use', meaning applicable to military as well as commercial systems. Other countries also import dual use technologies directly to China and via Hong Kong. This only strengthens the importance of not only Hong Kong - China economic relations, but also the need for peaceful contacts with other countries to keep these technological transfers steady.

This desire for regional stability must not be misinterpreted and used to label China as an unreluctant, weak, or disinterested regional player. China takes the concept of sovereignty

seriously and is warily watching those nations it perceives as regional threats, mainly Japan and India. China's memory of a imperial Japan that invaded its homeland during World War II is vivid. Therefore, it watches with mixed emotions the United States-Japan Alliance; supportive because it stabilizes the region and holds Japan in check, but also views the alliance as a containment of China.

It is important to remember that Hong Kong's return to China sovereign rule will finally close the 100 year chapter of shame and misuse by the West. China's vow to never suffer this humiliation again is clear; their reaction to any such attempt is unwavering. The United States must understand China's resolve to maintain its sovereignty, possibly at any cost.

It is important for the United States to not only understand, but acknowledge China's role in the Asian-Pacific region, the historical importance of sovereignty, and its desire to enter the international community. In only this way, will the United States continue to work with China as a world partner in maintaining economic as well as social stability in the region. But the United States has its own strategic concerns that must also be understood and acknowledged by China as well.

### **United States Strategic Concerns**

***"I think we have to see our relations with China within the broader context of our policies in the Asian Pacific region. I am determined to see that we maintain an active role in this region...I believe this is in the strategic, economic, and political interests of both the United States and China."***

President Clinton  
Press Conference, May 26, 1994

The United States has long appreciated the importance, economically and politically, of the Asian region. U.S. interests in Hong Kong, although mainly economically based, are rooted in stability issues connected with China. Because of Hong Kong's imminent return to Chinese control, the United States must take into account China's influence and effect on Hong Kong-US relations.

*Economic Concerns.*

Hong Kong is the largest base of American economic operations in Asia. Over 30,000 Americans live and work there. One thousand U.S. firms have corporate offices in Hong Kong, most of which are used as financial and marketing bases in support of substantial manufacturing facilities in mainland China and as headquarters for business activities throughout Asia.<sup>14</sup> U.S. investments totaled over \$10.5 billion by 1995 and US export/import figures for 1994 were \$11 billion and \$9 billion respectively.

Hong Kong is also a major transshipment point for over \$20 billion in Chinese exports to the United States, further evidence of the intermediary role discussed in the previous section. United States exports of \$9.2 billion to China represent only 1.8 percent of the total U.S. exports to the world, making China the fourteenth largest market for U.S. products. On the other hand, an excess of \$38 billion in Chinese exports to the United States accounted for 5.8 percent of total U.S. imports, making China the fourth largest supplier of goods to the United States.<sup>15</sup> With expectations of a 25 percent increase for these imports in 1995, China is quickly

lengthening its lead in the China-U.S. trade imbalance. This imbalance has the U.S. pushing China to improve market access for U.S. goods and services and enforce stricter Individual Property Rights laws.

Realizing the economic importance of both Hong Kong and China to the U.S. economy and trade markets, the U.S. is interested in the upcoming reunification and its effect on U.S. trade and business. The U.S. is primarily concerned with the maintenance of those conditions that made Hong Kong what it is today - a haven for international business. Several of these conditions are:

- Continuation of a high degree of autonomy, stability, and prosperity
- Presence of a free market system, including the free flow of capital
- Low taxes, a duty-free port, minimal regulation, and enforcement of contracts
- Maintenance of the rule of law, accompanied by the protection of civil liberties and human rights<sup>16</sup>

The United States realizes that changes will occur that bring about differences on how these principles will be implemented. The U.S. further believes it inappropriate and unnecessary to become involved in how Chinese and British agreements and policies are decided.<sup>17</sup> However, the above listed conditions are being monitored closely for evidence of fundamental changes.

The condition of autonomy, stability, and prosperity is at the heart of Hong Kong's existence and a key factor in its future as an international center, especially in regards to U.S. - Hong Kong relations. This is the primary purpose for U.S. continued support to Hong Kong's membership in the World Trade Organization and the Asian-Pacific Economic Cooperation forum. The need for a continued free-market system is important for U.S. businesses. "Hong

Kong has one of the most liberal trade and investment regimes in the world ... virtually no government barriers ... to establish businesses and compete.”<sup>18</sup>

Obviously, any changes that affect these conditions could result in a loss of confidence by U.S. businesses and decreased investment to the region. The possibility that many other international corporations would react in a similar manner and withdraw not only physically but fiscally from the area is not unlikely. Consequences could then be substantial, with economic vibrations across the entire Asian theater. For this reason, regional stability may just be the common objective that keeps China and the United States in a cooperative dialogue that works on diffusing friction and maintaining peaceful relations.

*Political Concerns.*

The rapid growth in China's economic strength heightens the importance of China in the Asian security equation. China is a nuclear weapons state with not just regional military power but global power through a permanent seat on the United Nations Security Council. As the fastest growing economy in the world, China is an essential partner in the quest for regional peace, stability, and prosperity in Asia and the world. The United States must not only recognize China's influence, but understand the importance of fostering a cooperative environment to address regional and global issues.

China statements to date appear to support the belief that Hong Kong's future prosperity is directly linked to preserving its highly active and influential capitalist system. Hong Kong investment levels in China are no doubt a primary reason behind its commitment to this success. Unfortunately, China appears less understanding and tolerant of the need to provide Hong Kong

the same high level of autonomy in the political arena. Recent events surrounding free elections, civil liberties, and freedom of expression have raised serious concerns by the U.S. on China's intent to comply with the 1984 Joint Declaration.

China's decision to not recognize the validity of the 1995 Legislative Council (Legco) elections is disturbing to the United States. The provisional legislature put in place by Beijing includes 10 members who were defeated in the 1995 Legco elections, obviously not a clear reflection of the Hong Kong people. "The U.S. has not endorsed any particular electoral law or set of proposals and, as a non-party, has refrained from debating the technical legal interpretation of the Joint Declaration. But we have supported the development of open, accountable, and democratic institutions in Hong Kong ... we made clear our belief that China's decision to replace the current elected Legco was both unjustified and unnecessary."<sup>19</sup>

In choosing the 150-member Preparatory Committee, charged with establishing the Hong Kong SAR government, Beijing pointedly excluded representatives of the Democratic Party -- the largest political party in Legco.<sup>20</sup> The committee then recommended to repeal parts of the Hong Kong 1991 Bill of Rights Ordinance. This action, coupled with Beijing's recent refusal to comply with the Joint Declaration's requirement to submit reports to the UN on international human rights covenants, is seen as a strong signal that Hong Kong's individual freedoms and civil liberties will be restricted after reunification. The United States firmly believes that protection of basic freedoms and civil liberties is vital to Hong Kong's way of life and is therefore concerned about any efforts to erode these freedoms.

Signs of Beijing suppression of the press are increasing. Especially effected are the Chinese-language media, presumably because China has less concern with how it is portrayed to

the West than how covered in Hong Kong, and especially China. Bribes, withholding of visas, and pressure by Chinese officials on editors are a few examples of recent tactics by Chinese officials to curb anti-China reporting.<sup>21</sup> The recent release of Hong Kong journalist Xi Yang, imprisoned in China since 1994 for reporting illicit information, is encouraging as is the continued U.S.-Hong Kong journalism exchange programs. "The U.S. hopes that Hong Kong's free and open press will continue and that tolerance for dissent and the right of peaceful debate is maintained."<sup>22</sup>

## **Conclusions**

Hong Kong is indeed the legendary Goose with the Golden Eggs: leading financial and international trading center, well-respected member of regional economic forums, and major world trading partner. Undoubtedly, these attributes are appealing to the entire world and especially China and the United States. China and the United States are focused on domestic issues. Both have substantial interests in Hong Kong and would be effected by any drastic changes that would alter its economic and financial growth. Hong Kong investments reinforce the heritage and cultural bonds between itself and China and any actual or misconceived actions by China could splinter this bond. U.S. trade and business in Hong Kong is substantial and changes in policy or law that effect these areas could have consequential effects on U.S. domestic conditions.

China does not seem anxious to destroy these golden eggs, but does believe changes are needed for Hong Kong to align itself more with the mainland. Just how far China will require

the people and institutions of Hong Kong to change is still undetermined. China has publicly stated its national priorities of economic growth and regional stability and recent overtures to foreign investors has set a new precedence of engagement in the international community. Furthermore, China's request to join the World Trade Organization (WTO) is but one sign of this new commitment. To undermine these new efforts by disrupting a well tuned and highly profitable Hong Kong could surely endanger China's own self interests.

The United States National Security Strategy of Engagement and Enlargement fully promotes U.S. core interests of economic well-being and protection of homeland. How China assimilates Hong Kong into its economic and political structures will be a major factor in how the United States will view this regional power and its effects on U.S. interests.

China's export trade to the United States is increasing daily and Hong Kong's trade role has undoubtedly facilitated this growth. China is quickly becoming a major U.S. trading partner and must be treated as such. The United States support for China's membership in the WTO is evidence of U.S. resolve to integrate China into this rules-based multilateral trading system. This step can hopefully influence future Chinese trade policies to meet international standards of commercial conduct and ultimately lead to improved market access for U.S. goods into China. Full partnership in WTO can also provide China the mentoring necessary to expand capitalism and understand the benefits of maintaining Hong Kong's current business structure.

Long-term stability and prosperity of the Asia Pacific region are U.S. vital national interests and key to the continued prosperity of the United States. An adversarial relationship with China can cause regional countries to divide and disagree as they try to adjust to the pressures of both the U.S. and China, quickly leading to dissension and chaos in organizations

such as the ASEAN Regional Forum. A break down in regional consensus and cooperation could precipitate chaotic effects for stability and security, and ultimately result in economic and security emergencies for the United States and the rest of the world. Therefore, the U.S. must not only recognize China's role as a global power but continually engage them as a partner in productive dialog that addresses disagreements up front and works toward peaceful resolutions that benefit both countries.

Hong Kong and China are intricately linked by geography, culture, and history. China's demand for sovereignty rights is predicated on years of humiliation and disgrace, not easily forgotten or forgiven. It's suspicion and mistrust of Western powers was and continues to be grounded in occupation and rule by European empires. China's political demand for a closed society, free of western influence, was its primary strategic objective for many years. The Dragon contentedly hid in its cave. Concurrently, the Golden Goose flourished under a free market economy and western avenues of trade. British rule produced a western lifestyle totally alien to that of its Chinese father. Like any offspring returning home to parental rules after being away for so long, adjustments, disagreements, turmoil, and changes must be weathered. China is certainly struggling to find an equilibrium for itself and Hong Kong, to integrate sovereignty demands and still grow and prosper in the 21st Century. Goals and objectives will most likely be different, and compromise is usually determined to be in the best interests of both. The July 1997 Hong Kong-China reunification is no different. It will take time and even some mistakes, as with any unfamiliar and sensitive situation. China appears committed to this objective and the world community appears willing to allow China the room to succeed.



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